Anglo American Plc
2019 Interim Results

Thursday, 25th July 2019

Opening Remarks

Stuart Chambers

Chairman, Anglo American Plc

Welcome

Good morning everyone. My name's Stuart Chambers, Chairman of Anglo American. It's my pleasure to welcome to you to our 2019 half-year results presentation. Firstly, I want to just touch on safety. The Board of Anglo American is very engaged and very clear that it's a journey. There's a lot more to do and we're clear on the things that we have to change to ensure that we continue to improve in this area and build on the improvements we're already making in the underlying measures and of course, most importantly, to eliminate fatalities.

Secondly, to update you on Board changes since the full-year results in February. Jack Thompson, one of our two mining non-execs, retired having time served. He did nine years, and we're very pleased to have been able to bring in Marcelo Bastos to get us back to two miners within our non-execs. Marcelo is Brazilian and he has extensive mining experience in South America, an increasingly important part of our operations.

Two days ago we announced some further changes, which is that Nolitha Fakude, one of our South African non-execs, steps down from the Board but I'm pleased to say that we're not losing her because she's stepping down to take up a full-time executive role in Mark's senior team, leading in South Africa. We're then bringing in two new non-execs. One directly to replace Nolitha, and the second, also South African, to ensure that we sustain our target level, which is that we wish to have two South African non-execs over time in our Board given the importance of that part of our operations. So in that respect we're bringing on Hixonia Nyasulu and Nonkululeko Nyembezi and they join in November and January, respectively.

That's enough from me, thank you. I'll hand over to Mark.

Results Summary

Mark Cutifani

Chief Executive, Anglo American Plc

Acknowledgements

Thanks Stuart, and good morning ladies and gentlemen.

Sustainable, long-term focus

Our financial results reflect both good prices, particularly in iron ore, and solid cost control across the broader business. While volumes were down 2%, that for me was the disappointment, the cost control work was exceptionally good and very pleased with the work that's been done. Obviously still a lot more to be done but in the case of inflation and other pressures I think that's been incredible. As a consequence, our EBITDA margin of 46% is right up there with the best we've ever achieved, and certainly right up there with the best in the industry. It reflects both improving cost control and also improving realised prices for our

products. One of the unsung changes in the business and transformation in the business has been the marketing story, and we're very proud of what's been achieved.

Our dividends reflect the earnings improvement. A 40% pay-out ratio represents $800 million pay-out to shareholders and, in addition, we're announcing a $1 billion buyback. I think it's a very clear statement about where we are, with the projects in control. We're investing in growth in the future and, certainly from our point of view, the prognosis going forward as we look to continue to improve is pretty solid. And so we felt that it was appropriate and it also reflects the confidence both the Board and the Executive has in the future of the company.

Free cash flow isn't as good as it might have been given the headline performance. We had about $600 million locked up in working capital. We should see that come out but again Stephen will give you a much better picture on what that looks like. We have over the course of the six months seen some pressures in the diamond market. But the real high point for the first-half was the performance at Minas-Rio. We've adjusted up the guidance once, we've done it again today, 19 million tonnes to 21 million tonnes. Really pleased with how the team has come back after the pipeline incident. Obviously, a lot of work done while the pipeline was off and that certainly gave us a running start into the year so very pleased with that work. And our return on capital employed, 22%, reflects both improving margins and the continuing discipline that we have on capital allocation.

Safety, health & environment

Safety

Safety a critical issue for us and it remains an absolute focus and our priority item. We've reported three fatalities in the first six months, one at Moranbah in Australia, one in Los Bronces in Chile and one in Quellaveco in Peru on a concrete truck supplying concrete to the plant. Post the results we've had two bus incidents, people commuting from work to home at Collahuasi and near Los Bronces. And so, we've extended our elimination of fatalities work into transportation - including commuting offsite and with third party providers - as we feel that responsibility not only on site or within the mine gate but getting people back home and helping people make sure that their homes are safer as well. That's a responsibility we take very seriously.

Health

On health - continuing to improve the operations, focusing on making sure where people work is in the right shape. And certainly the progress has been significant. We'll continue to focus on that work.

Environment

And on the environment the improvement in the environmental side reflects the discipline around planning, the discipline around the operations and control of each of our processes and whilst we're not at zero we've got to keep improving until we get to that zero number. And certainly we're pleased with the progress that we've made so far.

Managing tailings safely

In terms of the environmental side and tailings, we continue to work on tailings. And we're going through the lift process at Minas-Rio but that facility is very new and a high degree of technical complexity has gone into that design. It's a very different design to most of the

tailings dams in Brazil as it's a water-containing facility. So we don't expect problems in terms of the approval, and we're on track to get that approval by the end of the year.

In terms of the tailings disclosure, we went public recently. Feedback's been very positive. We thank people that may have provided us with feedback and we're looking at anything we can do to improve. We're working with our colleagues in the industry, particularly in the ICMM and looking at standards more broadly. We're currently operating above the ICMM standards. We created a new set of standards back in 2014. They were used to help define the new standards for the ICMM in 2016 and we're continuing to improve our facilities and the management of our facilities across the group. And I want to assure people that it really does remain a key area of focus for us in the business, and very pleased with the progress we've made.

Fundamentally different business

In terms of the operations you've seen this chart a few times before. Our portfolio work has resulted in us being able to focus on the largest scale assets and resources that we felt had a lot more potential. And our improvement focus has been around three areas. Firstly, we've reconfigured our technical processes, so 70% of our mining operations have been adjusted to mine the ore body more effectively - including mining methods and process technologies.

Our Operating Model has then helped us improve the way we plan and execute work and so we've improved our consistency. We're not at where we want to be, but we were we're at least 20% better than where we were before. Each operating asset has improved 30% in the last five years, that's on average across the assets we have in the portfolio, to-date. We're now working on the technical and innovation platform covering from resource right through to delivering product to market.

We have delivered 30% more production from each asset and, more importantly in terms of driving margins, we've dropped our operating cost by around 45% in real terms or 27% nominally since 2012. And so that transformation has been absolutely key in supporting our improvement in EBITDA margins or 46% EBITDA margins. And again, going with the work that the marketing team has done has certainly underpinned our improvement in margins across the business.

Leading competitive position

In terms of measuring that performance across the industry and in particular talking about competitive position, we've improved since the last time you saw this chart. We've gone from the thirty-seventh percentile, on average, to the thirty-sixth percentile. On balance sheet while we're not the lowest number we'd like to think that our debt is in a good place and that the way we think about the balance sheet and investing in growth and investing in returns to shareholders, the approach is a balanced approach. And on looking forward, our suite of high quality growth options, most of those assets have EBITDA margins better than 50 and that's really important as we continue to grow the business through investment in those quality growth options. Over the next three to five years it really is an exciting time as we grow top-line performance by around 20-25% and at the same time we drive ourselves towards a 50% EBITDA margin. At 46% we're a little bit further ahead than we thought we'd be but of course iron ore has helped us get there. Pleased with where we stand and how we've positioned ourselves.

Step-change in performance & sustainability

When we talk about the transformation, we talk about FutureSmart Mining™ and the changes we've made, we like to make the important point that it's all connected as part of our sustainability work. The work that we're doing to reduce energy consumption, water consumption, improve our physical footprint is all about improving the business and returns, which is absolutely consistent with creating a more sustainable operation.

And whether you're talking environmental, health, safety, social partnerships, they're all part of the same lot of conversations, and obviously having a much more competitive cash position is also about sustainability. Our organic improvement is built on the three key short term foundations, obviously, with the quality of the assets we have provides us with the raw materials to shape the business over the longer term and position ourselves for continuing performance improvement and growth.

Our P101 programme actually builds off the implementation of the Operating Model. So we put the Operating Model in. We've improved our competitive position, but every one of us, when looking at each other in the eyes, says we're not yet best practice. The real drive from here is to get each part of the business to operating best practice.

Now, that doesn't mean every one of your processes get to that position because there are critical points in the process that we need to be at the top to ensure that we've got best performance across the business. The Operating Model and the work around the Operating Models provided the platform for that next set of conversation. Every one of our operators knows what they have to achieve to get to best-in-class on a shovel, a truck, loaders in the plants, right across the business, and that's really generating a buzz and a conversation about how do we get there.

Then the second part, the technical change: taking mining method changes and configuration changes to its logical next step. Tony and the team have been talking about changing the footprint, reducing energy consumption by 30%, reducing water consumption by 50%. All of those technologies and those different approaches come off the base that we've created. It's about mining the ore bodies the best way in terms of managing short term, medium term and longer term returns with the right balance - looking for the right technologies to hit those critical points that improves our performance and continues to improve both the recovery of the resources and the cost position.

FutureSmart Mining™

On FutureSmart Mining™ specifically, we look at the programme right through the value chain. Concentrated Mine™ is about getting the mining methods right. Mining the ore, only the ore, and driving the ore through the process at the highest grade possible - making sure that we're not wasting money on mining or processing waste. We've got our first ore sorter currently being commissioned at El Soldado, and so far the results look pretty good.

Waterless Mine - we're looking at various elements of the process including being able to coarse grind.

Modern Mine is around the systems we're building, and the Operating Model provides a very different base for us to look at, think about, plan and execute works in the operation. With the Operating Model it takes us 18 months to transform an operation from a standing start to

a very different mentality. It's important as it helps us identify where any issues are occurring quickly so we can go back in and then address – as Themba and the team did recently at Kumba.

And finally on The Intelligent Mine - thinking about what we do in a very different way. Our industry in my experience has not been good with data and data literacy has been fairly poor, even though we're an industry that has had big data for a long period of time. We need to understand that data and how to apply it to identify critical pinch points, control points and opportunity points across the business.

It also has gone to another level with the development of different algorithms and diagnostics across the industry. We think the changes that are possible are much more significant than most people understand. We've really pushed hard into this part of the business, and again it connects to everything else that we've been doing from getting a better understanding of geology, the mining opportunities, the mining methods and the application of new technologies to these operations. It's absolutely critical, and we've been investing in this for five years and we're starting to see the benefits in terms of what we believe we can achieve going forward.

Innovation driving sustainability

We're spending 16 times the amount of energy, double the amount of water, about eight times the amount of ore to produce a pound of copper. The trucks keep getting better and clearly the benefits of scale have been through cost performance but we think that the curve is starting to flatten off, and the opportunities to think very differently about mining using all of the tools I have just talked about is significant.

Tony has been the leader, with the operating CEOs, and they've worked as partners in working out how those technologies can be applied in their businesses. Over the next three to four years, the transformation in the business is going to be just as significant as the transformation we've seen in the last three or four years. We're thinking about where we're going as a company when we look at what we should do with shareholder returns and investment in the future - and getting that balance right.

Sustainability, I have talked to the key elements. It's important to make the point that they are interconnected. We've been doing that for a number of years and the benefits are coming through in terms of the results, the relationships we have with our core stakeholders across the business, local communities etc.

There's a lot more to be done, but Quellaveco was a good example of doing the right work in the community in what can be a fairly complex social environment. I think the way Tom and the guys are handling the work in Quellaveco has really gone well and the feedback from the government has been exceptional.

Inherent growth in production & margins

A pretty simple story: 2012 - 30% EBITDA margin. We're now at a 46% EBITDA. So an 8% production improvement won't drive that type of improvement in EBITDA because of the price comparison. It's been all about the transformation in the portfolio and the drive in the operating cost side. And for us with the projects we have in place, we can see growth up to that 135 off the 100 base in 2012. And we believe on current prices, we can deliver a 50%

margin, the 45% is on long-term prices. So that's the explanation of the range that we're showing.

So I think with that, I'll hand across to Stephen and he can unpack the detail behind the numbers.

Performance

Stephen Pearce

Finance Director, Anglo American Plc

H1 2019 – Continued delivery

Thanks Mark. As I talk through the numbers this morning, I want to touch on three key things and it flows on from some of the topics that Mark was talking about. So firstly, consistent delivery of the numbers is really derived from consistent delivery from the operations, and that's underpinned by the Operating Model and that relentless focus on productivity that Mark has spoken about. Secondly, the increase in margin driven by the relentless focus on productivity and also our prices this half have flowed into our improvement in our relative cost position. And thirdly, it's the disciplined use of cash. I'll try not to overuse this word this morning, but balance is my word of the reporting season. It's about how we think about that balance between the balance sheet, the capital and the way we invest in the business and returns to shareholders. And if we get that cycle right now it allows us to set up for that next wave of growth in cash flow and investment and returns.

But obviously, the big news for this morning is the returns to shareholders - the buyback of up to US$1 billion, consistent with those three themes that I have in fact just spoken about and how we're thinking about that use and allocation of the discretionary cash flow that we generate.

And then the base dividend - 40% payout ratio US$0.62 per share and I'll talk to both of those components in a few slides time. The numbers themselves: EBITDA $5.5 billion, earnings per share $0.58 - as Mark mentioned, the best half we've had since 2011. Free cash flow of $1.6 billion, slight build in working capital as we've noted in the results.

If ever there was a good build in working capital from a finance director's point of view - it's in receivables because we've had increased prices and the return of Minas-Rio. So, if ever there was a good build, this would have to have to be it.

Capex, our usual half one/half two split, and the Mitsubishi cash we had on hand coming into the second half will fund our proportion. Importantly, our guidance for the year on capex is maintained.

And finally, effective tax rate, I know it causes you a few issues in terms of getting to your EPS and dividend number. Apologies, but it is the mix of results across the businesses that drives that to some extent. In particular, this six month it's the return of Minas-Rio so strongly in a high iron ore price environment that has meant we've been able to utilise some of those past tax losses that we have accumulated from the operation. So that's driven us down to 30% and our guidance going forward is 29% to 31%.

$5.5bn EBITDA driven by strong bulks pricing

We have 34 assets in the business, but we're currently organised around four simple business units. Big increase in bulks, obviously driven by return of Minas-Rio and prices; PGMs, nice to see price is coming back to give us a little bit of a hand; Copper continued great work in terms of both volumes and cost, and Diamonds, even though we have seen softness in the market particularly from Q2 onwards, still contributes over $0.5 billion to the group result. In each case driving very healthy margins in each of those for business units.

Improvement driven by Minas-Rio & Prices

So as we work through the underlying numbers period-on-period. $5.5 billion up 19% from the prior year. Price largely driven by iron ore price – the 62% averaged around $91/tonne. That translates to us from a realised CFR price of about a $118/tonne, really driven by quality, grade and lump product, offsetting that some price weakness in thermal coal.

This period, we've had a little of a turnaround in terms of a positive impact across FX and CPI. Currencies generally moved in our favour, offsetting about $200 million negative movement in CPI and inflation costs. As you look across the combination of currency, the impact of inflation, the Minas-Rio recovery and the cost & volume change we've had for the period, it's a net positive when you add all of those things up, and that translates to that relative improvement in our cost position across the portfolio.

As we come in the H2, some real momentum with Kumba, Met coal, Minas-Rio and Copper from a production point of view and looking to recover some of that shortfall that you saw in our quarterly.

As we look at cost & volume going forward, it's not always an even flow half to half. You recall last year, we had a very strong first half and then slightly flat. This time around, we're actually anticipating to see the reverse with a fairly flat first half, and good momentum into the second.

Resilient balance sheet

Again, very consistent messages every time I get up here around the balance sheet and that's not going to change today, and it's not going to change as we go forward. So net debt effectively flat, we had the accounting standard adjustment for operating leases: opening adjustment of 500 and then another 100 added during the six months, mainly around normal shipping contracts. Net debt:EBITDA of 0.3 times: again, a very healthy position to take the business forward. And net gearing, which really goes to the underlying strength of the balance sheet in terms of debt to balance sheet: a very healthy 10%.

Delivering returns to shareholders

We are committed to the payout ratio. We're committed to the 40% payout ratio, and that has resulted in the quite substantial increase in dividends per share for the half, again, a direct reflection of the improvement in the underlying earnings at 27% up. That compares to 100 cents for the full year from last year, so a very good start assuming we continue with the performance, and that's roughly around a 5% yield.

In terms of the buyback, it really is consistent with our capital allocation policy and I'll touch on the wheel that we normally talk to in a moment, as we work through that allocation of discretionary cash flow. It reflects the confidence in our balance sheet, confidence in our near

and medium term growth, and again the balance that we have as we think about where we're taking the business today and as we go forward.

We also thought about the balance of returns to shareholders, and we recognise different shareholders have different preferences, but today, leading up today and including the today's 40% buyback that represents $3.4 billion of dividends and now with the buyback $1 billion of buybacks, so in total $4.4 billion since we restarted the dividend back in 2017. So that's an 80-20 split, again, it's about balance.

Going forward, please put in your spreadsheet, 40% payout policy. We will continue with that policy. I know we perhaps surprised some of you given my absolute resolute sticking to the 40% guidance. But it’s okay to reassess those things from time to time, and we will reassess those things from time to time as we go forward as well. We will always consider how we allocate the cash flow.

Balanced capital allocation

So how have we done? Let's look at the scorecard in terms of our capital allocation and cash flow. So $1.6 billion of sustaining cash flow, 40% dividend last year was $700 million, this year it's $800 million, and pleased where we are from a balance sheet point of view. You can see we're starting to allocate cash to some of the discretionary items, whether that be some smaller brownfield growth projects, Quellaveco (where you'll start to see our proportionate funding come through this year), and then obviously the share buyback which will flow between now and early next year.

Attractive high-returning growth options drive near-term capex

So back in February, we tried to give you some really good forward information around capital spend and where we saw the capital spend journey going. As you noted then and as you can see today, we see it picking up a little bit through 2020 and 2021, and I would anticipate as we move to 2021 that we will be towards the top end of that range. And that's a combination of the sustaining capex that we've clearly flagged and the productivity gains and extra volumes that we see, the brownfield approvals which I'll touch on shortly, and then the investment in innovation and technology, and obviously Quellaveco.

You recall at the full year, I presented a capital efficiency slide and nothing really has changed in that. We're still tracking at the moment that 20-30% capital efficiency. And if you recall that reflects exactly the same 20-30% operating efficiency that we're seeing through the operating sides of the business. You will see that fluctuate a little bit from time to time. Remember, it's okay for the absolute number of sustaining capex to go up - provided that, on a copper equivalent per tonne basis, we're spending that money more efficiently. That's exactly what we're still seeing, but as some of the businesses go through ramp up and volume improvements (a good example is Moranbah-Grosvenor) we're seeing increased productivity rates, which means we need to step forward a little bit quicker in terms of the degassing and mine development and setting up for the next longwalls. So a good reason why that's increasing, it's driving really high margin, great returns even though the absolute number creeps up by $0.1bn or $0.2bn across that timeframe.

High margin, high return, fast payback options

Looking at some of the options that we have across the portfolio - it's lovely to see that we've got a nice list in front of us and that we own these options. We flagged this last year and we're going to keep you informed in terms of how this unfolds going forward. We can tick another one off: in May, we approved the marine vessel in Namibia for the Debmarine operations. We've been talking about Moranbah-Grosvenor expansion that's likely to come through, through the first half of next year, I would anticipate at this stage. With some of the improvements in the de-bottlenecking work that we have seen already, we're already seeing some of the volume benefits result we would have seen in the next capex programme already coming forward to today, so we will just feed that into the studies and see how that flows out.

Probably some of the next things you will see, would be some of the technology and innovation showing itself a little more obviously as we invest through that 2019 and 2020 period, and then you'll see some of those benefits flow out through the 2021 and 2022 period as it works its way through the production systems and into underlying EBITDA.

What we will guarantee is that we'll keep you posted on those things and they will be very visible to you as we go through. They will only be approved over time and take full account of markets, balance sheet, cash flows and circumstances of the day.

Targeting $3-4bn cost & volume improvement

Coming back to our cost and volume improvement target, we are targeting $400 million for this year, originally $500 million, so we have just softened that a little bit. With the softness in the market that we're seeing in diamonds, in particular, we're not prepared to give up on that $400 million, it will be perhaps challenging but we have a number of initiatives building up to that and through that, we will be working very hard to deliver through the year.

On the basis that we achieve that, that will take our cost and volume benefit from this $3 billion to $4 billion target to $800 million. And in that bottom section there, the Operating Model and the productivity improvements we've flagged $1 billion to $1.5 billion in that bucket. So over time, and we said that that would probably be more front end loaded than the other categories, that's what we're seeing and we're starting to move towards that target over the next year or two.

As I said earlier, the technology and innovation, you will see a little more back ended, and so we would expect to see some of those benefits flow through in that 2021 to 2022 period. And then obviously there is the growth projects as well, very much a mix of the brownfields in the nearer term, and then the delivery of Quellaveco towards the end of 2021-2022. Those things should flow again nicely and quite visibly through the results over time. Very much reconfirming our target of $3 billion to $4 billion between now and the end of 2022, and you should expect to see progressive delivery against that through that timeframe.

Just to wrap up from me, where are we and where do we want to be? Growth, highly competitive and market leading. In particular, what we're delivering adds to the margin story that Mark spoke about, underpinned by disciplined allocation of cash flow and from a strong balance sheet position.

What we do have is a real commitment in terms of getting the balance of those things right whether that be around balance sheet returns to shareholders or delivering and investing in the future of the company. Thank you.

Growth

Mark Cutifani

Chief Executive, Anglo American Plc

A Growing Business

What growth means to us

The focus on quality is absolutely critical, and we test projects against the impact on their markets. We look at the margin we expect to achieve after this. Almost all of our projects have better than 50% margin at long term prices, and better than that 20% return on capital employed through the cycle.

Minas-Rio – strong ramp up

Minas-Rio had a very strong ramp up in the first six months. We've adjusted the guidance upwards. We're very pleased with where we are on the tailings programme; a sensitive word in Brazil at the moment. The technological differences we have in the dam set us apart. The next lift is no different to the approval process for everyone else in the industry in Brazil. We're in a normal operating process.

Based on everything we've done so far, we think year end is the right expectation for approval, and we've got a lot of support from the government and the authorities. To remind people, we got our Step 3 mining licence in December 2018, six months earlier than we forecast. That allowed us to open the footprint, and was part of why we've done much better in the first six months, because we've been able to blend product and get better throughput through the plant.

Projects update

Quellaveco (Copper)

Quellaveco on track. Most complex part is around the social dimensions, and the guys have done good work there. We've mobilised all the major work areas, we're pouring concrete and the progress has been very good.

Marine Namibia (Diamonds)

We've ordered a new ship, it's on its way. It mines our highest-value diamonds on a per carat basis. Rapid payback, so a good project.

Aquila (Met Coal)

And Aquila, the Grasstree lifex. The learnings from Moranbah, Grasstree, Grosvenor have gone into the design of Aquila.

Positioned for the future

Asset quality plays to global demand themes

Our portfolio is unique in the industry and we hope that shareholders and prospective shareholders, can see that the exposure you get is very different to peers. Our diversity is a consequence of the quality of the assets.

Diamonds – world leader

The ultimate luxury consumer product. With a growing middle class and shrinking industry resource and production base, our global leadership position through De Beers is exceptional. De Beers isn't really a diamond company, it's a brand that is an industry icon that means the very best in diamonds. The industry's going through a bit of a tough time, but we think that's not a structural change. With Lightbox, we're very pleased with the market's reaction to the product. Three to five million carats of total synthetic production is small compared the global diamond production of 143 million carats, so not a significant factor, and the pricing is more akin to other lower-value products.

Copper, PGMs and bulks

As the world becomes greener, nine billion people will need energy and other industrial solutions that will drive significant growth in copper, nickel, manganese and PGMs. And as the circular economy starts to impact the sourcing of bulk commodities in various forms, our focus on quality coal and quality iron ore is a differentiator in a market that will go through significant change over the next five to ten years.

Resilient portfolio benefits from macro trends

That nine billion population will look very different, in terms of urbanisation. The last few years we've seen 1.4 billion people move to cities, and another 1.4 billion move to cities over the next 18 years. We look at demographics: ageing population and urbanisation; the rise of the middle class; climate change; carbon reduction; the rise of renewables; transportation fuels and the circular economy, and that includes recycling, particularly across bulks, through the recycling of steel; high-quality primary feeds, new business models. 57% of our portfolio by production consists of greener and consumer-facing commodities.

The environmental benefits that we have in the portfolio and through the R&D programmes we have across precious metals are going to be very important. People are talking about platinum and palladium being used in lithium batteries. We are driving these changes through the Platinum Guild.

Our high-quality products

We think strategically about commodity mix and tactically in making sure we've got the best operations, and we are building a business that is resilient for the long term.

Diamonds – world leader

The value per carat that we produce does set us apart, and we believe, longer term, the real price activity and potential for value sits more in the high-value areas. We think, as Argyle and other operations close, the prognosis for the whole diamond market is very positive medium to longer term.

64-67% Fe-grade iron ore

In iron ore, we are not the biggest, but a strong quality player. We have still got a long way to go but certainly the improving cost position has helped improve our margins.

PGMs - world leader

In PGMs, just off being the largest producer, but our focus on quality making sure we are driving returns.

82% is high quality met coal

In met coal, very competitive on cost. Pretty good size producer but focused on making sure we are at the top end and demanding a product premium for our quality, consistent with the value that we are delivering to our customers.

Summary

So, to summarise our investment proposition. We have got world-class assets with attractive and carefully phased growth options. We are building leading capabilities in operations, new technologies and the marketing of our products for value and our returns are underpinned by ensuring that our focus on capital discipline is maintained irrespective of where products prices are on the day. We are focused on delivering consistent returns on capital and of capital to our shareholders. With that happy to take questions.

Q&A

Dominic O'Kane (JP Morgan): First, I want to understand the capital allocation wheel better. 40% ordinary payout recommitted to, and a billion dollar buyback, but if $5.2bn net cash in South Africa, building by about a billion dollars a year. Over the next three years, about $3 billion of growth CapEx. None of that in South Africa. So, how do we reconcile the South Africa net cash position and the build going forward to access capital returns? Should we regard that he South Africa net cash essentially, is a piggy bank?

Stephen Pearce: We report cash in two ways. Technically where it's from, and practically where we manage it. The majority of the cash is managed in London in US dollars and used as part of general group liquidity so day–to–day, it has little impact on how we manage the business. We accumulated the 5.2bn (technically owned basis) from this we pay that $800 million base dividend, using a little bit in excess of a billion dollars given the minorities in KIO and Platinum and we use the billion dollars in terms of the buyback. So, you will see a significant step down.

Also, we have capital projects in SA: Venetia underground and we are working through options for Mogalakwena. They are a little while away but factor in as we look forward.

Dominic O'Kane: Second question on Minas-Rio conversion of the operating licence. You previously mentioned November/December was where you would expect to have a licence otherwise you would have start thinking about production volumes. Is there any slippage in that? Do you think you got the greater flexibility into 2020 on when you might need to have the operating licence in place before you start to think about production volumes?

Mark Cutifani: We haven't changed on the likely timing given the sensitivities around the issue, the legislation is now hardwired into September. So, the legislation will be in place, and

then there is about six weeks of consultation to finalise so we expect to see probably around November the approval. We have until end of Q1 where we have scope in terms of volume.

Myles Allsop (UBS): First, how sustainable do you think the buyback is, given CapEx is going up and given the outlook for bulk prices? And is there a net debt target for non-South African net debt that, you know, provides a threshold when you see excess cash?

Secondly on thermal coal. It was cash negative in the half. Does that change your view in terms of how core that asset is in South Africa?

Stephen Pearce: The buyback is a one off. We have accumulated excess cash and we are now allocating that to shareholders. So, you should put in your spreadsheets a 40% pay out ratio. If we accumulate more cash excess and then we would consider how we dealt with that.

In terms of net debt targets, I would not try to pinpoint today's debt as a number, tomorrow's debt as a number. It is a holistic consideration of where think the business is today, how it has performed, what we have accumulated and how we look in the medium and longer term.

Mark Cutifani: On thermal coal, in the last three years we have reduced our footprint by 50%. The thermal coal assets have the shortest life in our portfolio and that we are unlikely to be invest in new thermal coal projects. So, thermal coal, while still important, is reducing in significance across the portfolio. We look for a just transition making sure that we are working with the government, working with customers, working with communities, working with employers. We continue to improve the business but longer term, it will be less prominent in our portfolio. We have not made a final call yet.

Liam Fitzpatrick (Deutsche Bank): Firstly on De Beers. It could be a weaker year compared to 2015 which was a big destock year, so how close are we to a turning point, and do you think a more aggressive pull back in your supply volumes may be required to rebalance that market?

Secondly, on growth capital, the 1.5 to 2 billion for 2020-2021, how much of that is approved versus not approved?

Mark Cutifani: On De we think the second half will remain tough. How far we have to go is something that we will gauge and measure very carefully over the next three or four months.

Bruce Cleaver: Broadly speaking when you compare this to 2015, in the consumer markets, although there are different things going on in different markets, there is reasonable demand. As long as there is downstream demand, the issues in the mid-stream all things being equal and us being very careful with volume and price, you would expect them to play out over a period of time. It depends on consumer demand in the downstream markets, particularly in Q4 and as we sit here, demand is not in a bad space. We will be spending money differently but smarter in marketing in the second half of the year to try and help downstream demand.

Mark Cutifani: We have taken a leadership position. We will continue to operate and deliver to demand.

Stephen Pearce: Capital in 2021. Quellaveco is one of the bigger years in terms of CapEx through that time frame and Venetia underground will be coming to the end of its capital spend. The ship that we have just approved will be some component, I would imagine

Moranbah-Grosvenor expansion will be approved and some of the investment technology would make up the majority of spend in that year.

Sylvain Brunet (Exane BNP Paribas): On coal. In the greener world, in the transition, could you even consider accelerating that transition and separating coal from your portfolio?

Mark Cutifani: We remain open to society's sensitivity in the broader sense, and in particular shareholders' sensitivity. We are an active participant in the debate but we are also very sensitive to our responsibility to stakeholders, governments and local communities, employers.

In the next 12 months, we will put more shape around as part of our sustainability work.

Sylvain Brunet: Eskom electricity and cost in South Africa, anything you could share? We saw the headlines on the bailout but any progress that you can share on electricity cost?

Chris Griffith: I am not sure I can add anything new. We had load shedding in the first quarter of the year. We managed mostly to get through that without losing mine production. Some refined production has been pushed into the second half of this year so we should still get most of it this year. The 14% increase in electricity price is three times inflation. Next year is likely to go down to 10% but I think we can pencil in higher Eskom prices for a few years. That is some of the reason we are working on solar generation. However, for now we have gone through the winter months without load shedding and I think that was to be expected because Eskom does not do any maintenance in winter periods. So, expect as it comes to summer it might get a bit tighter. We also provide technical assistance to Eskom.

Mark Cutifani: With our PGM business because of Mogalakwena's contribution and the degree of mechanisation, our exposure to Eskom is lower than our competitors, and we have more flexibility in our downstream smelters and refinery. For an underground operation, ventilation is 40% of the energy consumption and it is 24 hours a day. So, we are structurally advantaged because of where and how we have set the operations up.

Sergey Donskoy (Societe Generale): Firstly, Minas-Rio cash cost for first half was $21/t. The guidance for the full year for 24-27. Are we expecting terrible second half?

Second, working capital was up in the first half by seven hundred million. Should we expect a release in second half or are we at a new normal level?

Thirdly, copper. You flagged some issues with water availability at Los Bronces that may impact your operations in 2020. Two questions here. Could you quantify what potential shortfall we are talking about? Strategically, to what extent water is threatening your plan to achieve 1 million tonne in copper? What is the constraint? Is it possible at all?

Stephen Pearce: Minas-Rio cost. We had a fantastic first half off the back of a lot of work while the plant. We will have some maintenance and some weather disruption in the second half.

Working capital. Two components. 400 million in receivables because of the price and Minas-Rio coming back on. 200 million inventory in copper, PGMs, etc. so we would expect some of that to run out in the second half but possibly offset if softness in the diamond market continues all the way through to year end.

Mark Cutifani: On the copper, we're confident that our guidance is solid for the year. We have seen an in the last couple of months of maybe 3-5%. We're in the driest year for 60 years in Chile. We are already looking at water harvesting and additional measures to cover off next year. A potential impact might be 5% but we have to see how the next three or four months play out.

On the million tonnes. The work on the technology side, is critical to making sure that we've got the water, so a 50% reduction through the implementation of coarse particle flotation, the ore sorting, and other technology, is the key. We're well on track with that research. El Soldado will be the first site. We start construction towards the end of the year, but it won't be till next year before we see commissions.

Paul Gait (Bernstein): De Beers you've got the sort of strategy of supplying volume to demand. I'm just wondering what you're seeing amongst your competitors there, is there a similar response to the weakness in the market or are going it alone? Are you doing all the heavy lifting for the market?

The second question is on the PGM price deck. So I know iron was at extraordinary levels, but then at the same time, if you look at the platinum to palladium ratio, that's a kind of mirror image story to the other side. Should we be expecting that likewise to renormalise at some point or this shift that we've seen in the market now, should we regard that as the new normal?

And then the last question, I'm just struggling on slide 26 with the net debt to EBITDA ratio of 1.5 at the bottom of the cycle. I mean, given we've got $3.4 billion of net debt, should I imply that you think bottom of the cycle EBITDA is about $2.3 billion? Or how else should I think about that slide?

Stephen Pearce: As we look forward in today's business at low prices, that's how we then think about that bottom of the cycle EBITDA ratio. So off today's numbers let's say we had 2015's prices for the whole year flat, I don't know, I'll make the number up, maybe it's $7 billion EBITDA and then we would look to not have more than $11 billion or something in that range. So it's really a look-forward basis in a downside scenario rather than working backwards from today's numbers.

Mark Cutifani: From our point of view on a value basis, we are the largest player in the diamond market and we make judgments against what we see in the market and we take cognisance of that. Our partner and shareholder, the Botswanan government, is also very sensitive to the long-term view of diamonds. So we take positions for the long term. Others sometimes follow, sometimes don't. We don't talk to them. Whether they're pulling their own weight, let others make that judgment. From our point of view it's important we're the leader, we take the positions and what we've done in the last few years seems to have worked reasonably well, although the behaviour elsewhere has been mixed. And we don't assume it'll be any different looking forward.

On palladium/platinum - the palladium price reflects demand and supply and that the market has appeared to have been short palladium and we're seeing that in the price. Whether switching will occur over time, probably. But then we would see an improvement in the platinum price. The way we think about PGM prices is we look at rhodium being the most reactive and the most valued in terms of end-use applications, then platinum and then

palladium. And palladium has a very specific application nearer the engine block in terms of heat and performance and so it's got specific value in its own right. So it's going to move between the three. And the thing I've learnt in the business from Chris and the guys is that they don't tend to move all down in one sway, although when the market's tough you may get that, there will probably be adjustments. But we do well if we take an average price across the three commodities – we do well 900 and above, do extremely well, and at the moment we're at about 1200 on a balanced basis, even probably a bit higher. And it's not going to swing away too far from that any time soon.

Ian Rossouw (Barclays): Two questions. Stephen, on your comment about it's okay for sustaining capex to go up, obviously if you see that per copper equivalent growth, it follows but on Tuesday, Themba was highlighting some capex numbers for extra stripping and a few additional items, and he wasn't prepared to give us any numbers yet, but is there a risk that that increases your sustaining capex above the ranges that you've given us in the slides at the moment?

Stephen Pearce: Not materially and some of that may be short term catch up a little bit just to get the mining right and the processing plant right. Nothing that I think you should be overly concerned about at the group level.

Ian Rossouw (Barclays): And then just coming back to the ex-SA net debt number, I mean that obviously jumped up from the pro forma number you mentioned of $8 billion up to $8.5. Obviously, I suspect the IFRS 16 was probably the majority of that as well and working capital, but do you expect – absent high iron ore prices - do you expect that number to come down at all in the next few years?

Stephen Pearce: I'd love to be able to predict the mix of prices that would flow out. If prices stayed the same, the majority of our growth capex in the near term, the next couple of years, is in the rest of the world, so with healthy prices it would probably stay about the same.

Mark Cutifani: Don't forget our capital employed in South Africa is about 25% of the portfolio and with growth occurring, and even though we will have growth in South Africa in certain areas, the average capital employed will probably reduce and the rest of the world will be playing a bigger part. So it does normalise over time.

Stephen Pearce: And most of the growth in the EBITDA in the next couple of years is in the rest of the world as well, so it's just a timing question to balance it out.

Alain Gabriel (Morgan Stanley): One quick question on your cost and volume improvement target of 400 million. You've achieved around 300 million negative in H1. Does this leave us with 700 million for H2? And how would you split it up in different buckets if you give us more granularity?

Stephen Pearce: You've exactly right on the maths, hence while we're not prepared to give up on the target, it will be tough to bring it home in the second half. But we do have pretty good momentum, particularly in some of the bulks - a combination of Moranbah-Grosvenor, Kumba is going to bring the second half very strongly and continued good performance in Minas-Rio is probably the largest individual portion and copper has also run very well from a cost and volume point of view too. They're the main elements that will drive us towards that 700.

Mark Cutifani: May-June were strong months. June we broke an all time production record at Moranbah, so the recovery from coal seems to be gathering momentum. We're starting to get more volumes back through in Kumba but that started back on the recovery - June was actually a pretty solid month. We're starting to build momentum in the last couple of months. There are some pushes in there but certainly the momentum seems to be picking up pretty well. And Amandelbult is another one, the last two months they've been hitting pretty good numbers as well.

Stephen Pearce: Sometimes currency plays a big role as well. Obviously you know in the last few years we've had very good strong cost and volume improvements offset by negative inflation in currencies. It's a little bit softer in cost and volume, a little bit better in the currency factor.

Mark Cutifani: I think the only area that we're just watching very carefully is obviously De Beers. A little more market work there but the other parts of the business are coming back pretty strongly.

Cedar Ekblom (Bank of America Merrill Lynch): Just a question on your technology push. Adoption of technology in the industry is becoming an industry-wide issue. Can you talk about the breadth of your projects and where you think you are on the journey relative to your peers, as it relates to retention of those savings? Do you think you're just going to be giving them away as everyone catches up or do you think you've actually got quite a big headstart?

Mark Cutifani: We're trying to get a three to five year break on our competitors and in my experience in this industry, that's a pretty good break, because with internet and all the other technologies, things can transfer fairly quickly. So you've got to remain that far ahead year on year. The good news is we've been investing for five years and I think we're in a pretty solid position. Certainly the feedback from people has been very good. But with that, let me hand across to Tony and you can make your own judgement.

Tony O'Neill: Our programme's certainly a lot broader than the rest of the industry. We've seen our sweet spot as essentially being around the ore body and what tunes we can play with that and in the processing plant. If I look across the broad industry, it's focussed mainly on automation whereas we've been taking more of a technology approach. That's not saying that we're not working on automation and particularly around data analytics and advanced process control, so we're not particularly behind in those areas and the automation gap we're closing with P101. So my sense is actually we're in front of the rest of the industry but it's important that we implement really quickly, and also that we don't get eaten away by inflation.

Mark Cutifani: Yeah, so we've worked on a number of fronts. I think we're making good progress. We're starting to build things in the field now so that's the really important part. And the open forum approach, the fail fast, being quick on the ground, is something we introduced about four years ago and I think that's given us a break. Others, there's been a lot of debate in the industry around IP. Part of the difference in our open forum approach is that we're more comfortable letting IP go and going for speed, because in our view the way the world works today that information gets spread very quickly and people find workarounds. You're better off focusing on speed and agility and getting there as quick as you can. And that's why I think the work we've done so far puts us in a pretty good position.

Tyler Broder (RBC): In terms of the buyback, what is the timing you expect this buyback to go on for? And can you describe the constraints around the 'up to' $1 billion?

Stephen Pearce: The timing that we've indicated in the buyback announcement is from now up until the end of March. We would expect to execute that programme up to $1 billion. Ultimately it depends on volumes and days and price moves and those sorts of things. We plan to execute proportionally to our share register in both South Africa and London. They're the main mechanical aspects over that time frame but ultimately it depends on markets themselves as to how quickly or how slowly that would be executed.

Sam Catalano (Credit Suisse): With regards to the bulk sorting you guys have indicated the potential uptick in grades going into the concentrator and throughput, when and how are we likely to see the tangible results of what's happening in El Soldado? The reason I ask is that we'll see if there's proof of concept and potentially myself, other analysts, could include those benefits in our forecasts in some of the other operations that you said you'll roll bulk sorting out at.

Tony O'Neill: We're working on the mine plan now for El Soldado. I expect you'll start to see an uptick next year and really get the full uptick the following year. On bulk sorting, I think it's also worth mentioning that we're commissioning a bulk sorter at this point in time in PGMs at Mogalakwena and we have another bulk sorter due to start construction in Nickel at Barro Alto in October/November. So we will start to have a spread across quite a bit of the portfolio.

Mark Cutifani: It's about 18 months lead from start to getting to near full rate?

Tony O'Neill: Yes essentially.

Stephen Pearce: And as we go forward into 2020 and 2021, we'll try to highlight for you some of that benefit as it's flowing through. Obviously, identifying it precisely as it flows through working capital and out to markets and into EBITDA is a little complex, but we'll try to give you as clear a picture as we can in the years ahead.

Mark Cutifani: Thank you ladies and gentlemen for being with us today. We're pleased with progress but still a lot more to be done and a lot more improvement to be had. Thank you.

[END OF TRANSCRIPT]